# Common Ground : How Free Market and Environmental Groups can Work Together on Building and Planning

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#### Bridge Building Isn't Always Easy

- There are good reasons why my organization is often considered an enemy of the environmental movement.
- But honest free marketers and honest environmentalists are committed to ideas: neither is of the "left" or of the "right."



- The Coastal Barrier Resources Act brought freemarket and environmental advocates together as never before. . .and, until now, since.
- It established a principle when it comes to certain coastlines, the government should never support development in sensitive areas.
- Catastrophe policy requires us to do it again.

# Three Principles for Coastal Building Codes

- Risk-Based Rates Lead to Good Building Standards.
- The Government Shouldn't Subsidize Development in Disaster-Prone Areas.
- Coastal Wetlands (and other Natural Areas) Matter to Everyone.

#### Risk Based Rates

- Insurance is not an arcane art.
- People should pay their own way.
- Building standards will follow in time.

#### Insurance is not an arcane art

- NAIC claims that insurance's kinked demand curve exempts it from the normal laws of economics.
- NAIC is wrong.
- All goods have kinked demand curves.

#### People Should Pay Their Own Way

- The government has no responsibility to encourage people to live in any particular type of area.
- There is no particular social benefit to people living in disaster prone areas—and there are significant costs.

## **Building Standards Will Follow**

- If we could arrive at proper insurance prices immediately, we would not need building codes at all.
- Risk-based rates in coastal areas will lead to less development and more conservation. (They may not, however, always protect the areas considered "most important.")
- Transaction costs and the existing housing stock do imply a role for building codes in the medium term.

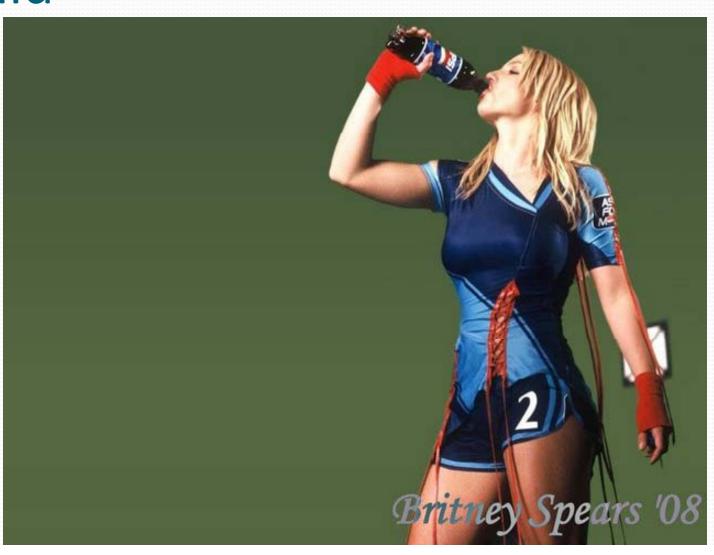
# The Government Shouldn't Subsidize Development in Disaster-Prone Areas

- Most development requires some help from the government.
- At most, rich, stupid people should be able to do what they want with their own land.
- ...But even they should have to pay costs.

## Development Requires Government Help

- Government builds nearly all roads.
- It provides schools.
- It runs NFIP and a variety of insurance programs including Florida Citizens and FHCF.
- CBRA areas have little development and, insofar as is practical, we should try to reduce development in other sensitive coastal areas as well.

## Only Rich, Stupid People Should Build



# But Britney Should Have Some Rights (And Responsibilities.)

- Without subsidies only people who are both rich and stupid will be able to build in the most sensitive areas.
- And, at minimum, those who do develop should pay the full costs of developing.
- If obvious externalities exist *and* the transaction costs of bargaining are high—which they are—then standardized assessments for these externalities make sense.
- But these have to be based on actual social costs: not a desire for revenue.

#### Wetlands Matter.

- Wetlands absorb storm surge.
- They slow hurricanes.
- If you don't build it, it can't be destroyed.



#### Storm Surge

- Recent research has shown that there's no neat rule of thumb for wetlands absorbing storm surge.
- But it's clear that wetlands do absorb storm surge from most hurricanes.
- And for that reason alone, they're important.
- I'd personally like to see "like social utility" standards when we do lose wetlands.

#### They slow hurricanes

- Large areas of wetlands appear to reduce the size and power of hurricanes because they are warm.
- They are the best natural defense we have.
- Asphalt, it should be noted, does the same thing.
- Paving wetlands, however, would likely require significant subsidies.
- . . . and I'm against that.

# If you don't build it, it won't be destroyed.

- Duh.
- But seriously, if we don't build in harms way, we don't have to worry about problems.
- And, in many cases, that's what the market suggests we do.

## Final Thoughts

- In this case, we're in sync intellectually.
- We've worked together in Washington, D.C.
- And we can do so here in Florida.
- CEI has a Florida office and we're anxious to work with anyone. . .and everyone. . .who believes in these principles.